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## **Credits**

The Task Force on Jobs & the Economy since September 11 would not have been possible without the commitment of the Task Force members and the support of individuals who either worked as staff to the full Task Force and subcommittees or who assisted with the research and input for this report.

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## INTRODUCTION

The September 11, 2001, terrorist attack led to a significant disruption of our national economy. As a result of the attack, Alaska's economy also was immediately impacted. Examples of those impacts include the cessation of air travel and the loss of convention business. But those numbers do not account for the full impact on Alaska's overall economy. While emergency response efforts and security were the immediate focus following the attack, Governor Knowles recognized the need to position Alaska to respond to the broader adverse economic impacts. On October 31, 2001, Governor Knowles announced the creation of the "Alaska Task Force on Jobs & the Economy since September 11<sup>th</sup>." The Task Force was charged with identifying the impact of the September 11 terrorist attack on Alaska's economy.

Task Force members included representatives from business, government, public interest and professional organizations from across Alaska. The initial meeting of the Task Force on November 15, 2001, included presentations by Alaskan economists and a discussion by Task Force members related to the various sectors impacted. Four subcommittees were identified to conduct further research and discussion on issues and industries. The four subcommittees were:

- |                                  |                       |
|----------------------------------|-----------------------|
| • Business Costs of Terrorism    | Eric Britten, Chair   |
| • Tourism and Visitor Industry   | Dennis Brandon, Chair |
| • Government Spending and Income | Jeff Bush, Chair      |
| • Transportation and Air Cargo   | Cliff Argue, Chair    |

Subsequently, each subcommittee held meetings prior to the second full committee meeting on December 10<sup>th</sup>. The subcommittees discussed and identified economic issues resulting from the events of September 11<sup>th</sup>. While many of the issues were industry specific, there was a great deal of overlap among the subcommittee issues. This final report represents a consensus perspective of the economic impacts and issues resulting from the subcommittee reports and full Task Force discussions.

## IMPACT

The terrorist attack on September 11th impacted every American in a variety of ways. Among these impacts has been disruption of our economic systems as we know them. An already weakening national economy was exacerbated by the terrorist attack. Consumer and business confidence has been severely impacted.

Many of the short-term economic implications to Alaska are clear. For instance, the cost of insurance for the state and our private sector will sharply increase, and our tourism industry could suffer substantial losses that could impact our employment picture in the next twelve months. The long-term implications are less clear.

The recommendations contained in this report will help guide government and the private sector in the near term.

## IMMEDIATE RESPONSES

Government and the private sector have already begun implementing actions to address the identified economic impacts. Some of these actions were needed to target urgent situations requiring a direct and immediate response. Others were initiated to begin addressing the most immediately apparent economic impacts. The Task Force identified the following current and ongoing efforts already underway:

- Appointment of the Terrorism Disaster Policy Cabinet to assess and respond to Alaska's need for increased security and protection from terrorism. Based on the Policy Cabinet's recommendations, Governor Knowles submitted a bill outlining appropriations to address top priorities in Alaska's security and response capabilities and further measures that need to be taken.
- Active negotiations to obtain relief from customs and immigration procedures on transit passenger flights such as Cathay Pacific and China Airlines at Anchorage, and relief from enhanced requirements affecting arrivals at Nome from the Russian Far East (Chukotka), consistent with maintaining adequate border security.
- Negotiations between the state and air carriers regarding the possible reduction or deferral of capital and operating expenses at Anchorage and Fairbanks Airports not required for safety, security, and essential capacity. The Alaska Department of Transportation & Public Facilities (DOTPF) is working with airlines and other airport users to determine which projects and other costs can be reduced without affecting operations. An initial stakeholder meeting was held December 12th. The initial goal of these negotiations is to keep airport rates and charges at or below existing levels for at least calendar year 2002, as an incentive to airlines to maintain air traffic activity in the face of growing costs and reduced revenues.
- Due to limited discretionary federal funds, capital construction projects in Alaska may be delayed. DOTPF is investigating additional funding options such as the use of bonds to take advantage of current low interest rates and maximize development. A feasibility report by the Airport system for the sale of bonds for construction projects is underway.
- Continue full utilization of federal dislocated worker funds to assist Alaskan workers that are laid off by impacted businesses and industries.
- Continue forecasting of job openings and job growth by occupation to reflect any recent impacts. Job training will be targeted to jobs that will be in high demand by the private sector and federal and state governments, such as security. Laid-off workers will be steered, to the extent they are interested and qualified, to the new in-demand occupations.
- Continue incorporation into future state-sponsored job fairs of a focus on industries that are showing an increased demand for workers.
- Increase marketing of services that provide small business support.

## ECONOMIST FORECASTS

Leading Alaska economists predict that the September 11 attacks may impact Alaska in the following ways:

- Alaska's **fiscal situation will worsen** due to the dramatic drop in crude oil prices. On September 10<sup>th</sup>, Alaska North Slope crude oil spot prices were \$24.63 per barrel. As of Dec. 3<sup>rd</sup>, the price was down to \$17.54 per barrel. While the decline in oil prices may not be tied directly to the September events, it is generally believed that the terrorist attack worsened an already bad global economic situation causing a decline in the demand for crude oil.
- **Flow of Federal Funds to Alaska could be curtailed.** The war against terrorism, increased security, and the sagging U.S. economy will all contribute to a diversion of federal funds away from Alaska.
- **Alaska's by-pass mail may be in jeopardy.** The U.S. Postal Service is suffering some major costs due to the Anthrax attacks. With potential losses running into the billions of dollars, the postal service is doing what it can to minimize the losses. By-pass mail in Alaska is reported to cost the post office over \$70 million per year. By-pass mail assists everyone living in rural Alaska and also supports dozens of small air carriers that serve many rural destinations. A decrease or loss of by-pass mail would affect passenger and air cargo service to many rural communities.
- **Foreign air carriers are already beginning to bypass Alaska due to increased security measures.** Much stricter security guidelines have been placed on carriers, increasing security costs. One new rule requires an airline coming from a foreign destination to have all luggage rechecked before proceeding to the next destination. Several international airlines, including Korean Air (passenger service to and from Toronto), Cathay Pacific and China Airlines, determined that this baggage recheck process would take too much time, so they are now overflying Anchorage. Korean Air may cut back more passenger flights, and Condor Air flights from Germany during the summer season are now in question. This means lost revenues for the airport in landing fees that must be made up by increased charges to remaining carriers, lost revenues for airport concessions (the portion normally paid to the airport must likewise be made-up by the airlines), and lost revenue for hotels that cater to crews.
- **Tourism to Alaska is likely to decrease.** The Task Force concludes that Alaska's tourism industry faces very real impacts. Winter tourism in Alaska is likely to decline. Much of the winter tourism revenues generated in Southcentral Alaska and the Interior are derived from Japanese tourists coming to view the northern lights. While the number of Japanese tourists visiting during the winter is relatively small compared to full year numbers, the winter season is vital to many small operators as it allows them to operate on a year round basis. The decline is likely to occur not only because of the fear of flying, but also due to the poor economic situation in Japan. Though it is currently very difficult to predict with precision the severity of likely impacts to the summer season, it will also be impacted, and these impacts could be severe absent immediate actions to address them.

- **Cost of doing business will increase** due to direct cost increases and productivity decreases. Increased insurance and security costs may all contribute to the increase.
- National Guard call-ups may affect some small businesses by reducing the available labor pool in Alaska.

## **OBSERVATIONS**

It is in the state's best interest for this Task Force to look not solely at short-term issues, but also to evaluate any recommendations and actions to determine whether or not they address the long term economic challenges that lie ahead, both those identified and those that might not be clear at this time. In considering recommendations, Task Force members agreed on the following observations:

- It is impossible to identify and quantify all impacts at this early date. The Task Force has been prevented from identifying and quantifying all the impacts, so we have concentrated our attention on those with the greatest potential consequences. Since most sectors of the economy and households have been impacted, we have concentrated our attention on recommendations to mitigate the most significant impacts that can be addressed by government actions.
- All impacts may not be apparent yet. It is important to continue to monitor the economy.
- Defining and measuring direct versus indirect impacts is difficult. It will be important to also observe any rebound impact two to three years from submittal of this report.
- While examining the impacts, it is important to recognize that the U.S. economy was already in a recessionary decline that began as early as March 2001. We need to ensure that we do not identify the recessionary trends and effects as terrorism-related. At the same time, we recognize that factors already in evidence before September 11 may have been exacerbated by the terrorist events. The Task Force focused on issues with the greatest causal link to the September 11 events, as was our charge.
- It is generally agreed that at the time of the September 11 events, Alaska was not suffering as much from the effects of the economic downturn as were businesses in the Lower 48. This is attributable to the counter-cyclical nature of the Alaska economy in relation to the U.S. economy as a whole.
- The many unanswered questions such as the costs of insurance premium increases, increased security needs, and long-term impacts following the September 11 attack are difficult issues for both the state and private industry at this time. Planning processes of business and government have been severely impacted.
- The state and private industry may have to adjust operations on a short-term basis as conditions change or issues become better defined. By its nature, uncertainty adds cost.

## FULL TASK FORCE RECOMMENDATIONS

- The Legislature should, in consultation with the Administration, review the issues identified by the visitor industry and the recommendations of the Alaska Travel Industry Association (ATIA) (Attachment 2) and grant \$12.5 million as a one-time appropriation to market Alaska as a visitor destination. Although the Task Force has not conducted a comprehensive analysis of the industry's specific marketing proposals, we have weighted the magnitude of the overall problem and conclude that the program suggested in the ATIA proposal is justified under present circumstances. This was not a unanimous conclusion; some Task Force members supported recommending only that consideration of a *significant* appropriation for marketing be considered, but opposed recommending a specific dollar amount.
- The state should continue to review and respond to changes in the insurance industry, responsive federal insurance legislation, and the impact changes have on the cost and coverage for government and industry.
- State government, where appropriate, should pursue all possible Federal funding and exemptions to national requirements due to unique Alaska circumstances.
- The Administration should monitor September 11 impacts over time and reconvene this task force quarterly for the next 12 months to address specific topics or challenges that may arise.

## CONCLUSION

The recommendations presented are a direct response to events as we see them today. Most of these issues are fluid, and therefore they demand careful attention during the next 12 months and possibly beyond.

We are especially cognizant of how this national crisis could impact our small businesses all across Alaska, in ways that might not yet be apparent. It is important that the state and Alaska businesses take advantage of federal programs that might become available to help mitigate the challenges ahead.

Careful attention needs to be paid to our state airports, important economic engines for our larger communities. In addition, our small regional carriers, which may be affected by possible by-pass mail changes, are critical to the health of our rural communities.

We recognize that there will be opportunities for our tourism industry to showcase Alaska as a unique yet safe destination for Americans that will not travel outside the United States for the foreseeable future.

Alaska should move forward in partnership with the private sector, the federal government and Alaska's executive and legislative branches to help address the economic issues that face Alaska as a result of the events of September 11.

## **Report of the Subcommittee on Business Costs of Terrorism**

Subcommittee Members: Eric Britten (Chair), Judy Brady, Brian Rogers, Therese Sharp, Susan Bell.

### **Summary**

The effect of the 2001 terrorist attack on Alaska's business costs is significant. Nearly every business interviewed identifies some form of additional costs or reduced productivity as a result of 9-11. At this time the costs can be categorized as direct or indirect, long or short term, and recognized or unrecognized.

Direct cost increases have been identified in the areas of security, insurance, technology, and lost business. Indirect costs that are affecting nearly every business come in the form of lost productivity. We believe that some of the added costs have not yet measurably affected some enterprises, and suspect other managers are being affected but have yet to actually recognize the costs and their attendant cause.

Emergency loans from the State are not a practical and real solution to costs addressed by this subcommittee. Similarly, outright grants very possibly would only serve to prolong problems, the real causes of which would still need to be identified and addressed.

Businesses believe that the added costs described in this report will be covered by one, or a combination of, the following three methods: (1) passing costs through to customers in the form of increased prices or add-ons, (2) government payments, or (3) absorbing the costs by increasing efficiencies or cutting expenses elsewhere.

Small businesses are having the most difficulty recognizing and coping with the additional burdens that they are encountering. The subcommittee believes that continued monitoring of small business health is warranted over the next six months, and that the extent and nature of available existing support and counseling programs should be more effectively communicated and reinforced.

### *Recommendations:*

- Elected state officials should support enactment of appropriate State and Federal legislation dealing with terrorism insurance and liability issues in terrorist situations.
- Small business support and counseling services should be more effectively promoted statewide. Agencies and organizations providing such services should receive adequate funding.
- Information about Federal programs that offer disaster assistance should be effectively promoted statewide.



- State regulators and legislators should support appropriate initiatives enabling technology-related communications infrastructure development and expansion if the expansion would lead to lower user costs or increased availability of services.
- Increased national security threats have traditionally affected ease of access to military facilities for small businesses. In light of the new terrorism environment, this is an issue that should be monitored and addressed with military authorities if it significantly effects the ability of small businesses to operate.

## **Salient Factors for Alaska's Businesses, Industry and Government**

Each subcommittee identified economic impacts resulting from the September 11 attacks. While different subcommittees and Task Force members' perspectives on these impacts varied somewhat, the larger issues that they relate to were very similar. These broader issue areas related to Alaska's businesses in general and recommended actions associated with them are described in this section.

### **Insurance Costs**

The cost of insurance following the September 11 events may be one of the most significant impacts to Alaska businesses as well as industry and government.

- Insurance costs, prior to 9-11, have been a challenge to Alaska's businesses. Rates were increasing and they will certainly be higher as a result of the attack.
- Some industries will see larger increases than others. In-state aviation, already significantly impacted by rising costs, may see some insurance costs treble.
- Reinsurers have been heavily hit by the 9-11 losses. They are certain to be much more particular about what projects they underwrite in the future. If reinsurers exclude terrorism coverage and if insurance companies are prohibited from making comparable exclusions, insurance companies face unacceptable risks to their solvency.
- Actual price impacts are harder to predict. In the absence of federal legislation, some quotes for reinsurance have come in from 300 percent to 1,900 percent above previous premium levels for the same coverage. Although the Alaska Division of Insurance will review insurance premium rates to ensure that they are not excessive, in most cases their regulatory authority does not extend to reinsurers.
- The U.S. House of Representatives has passed HR 3210, the "Terrorism Risk Protection Act," which will limit liability for future terrorist acts. The Bill is now in the U.S. Senate.

The United States Chamber of Commerce today praised House passage of the Terrorism Risk Protection Act (H.R. 3210) to protect the availability of terrorism insurance coverage for

millions of American businesses and limit lawsuits that seek to blame businesses for terrorist acts.

The U.S. Chamber urged the Senate to follow suit quickly, as the heightened risk of future attacks threatens to undermine primary insurers' and reinsurers' ability to provide adequate future commercial insurance coverage.

"Time is running out. If Congress fails to act before adjourning, the vast majority of businesses will lose their opportunity to obtain terrorism insurance before Congress returns next year," said Bruce Josten, U.S. Chamber executive vice president. "Failure to provide an insurance backstop now not only would open companies to exorbitant costs and direct liability for future attacks, but also could wipe out the benefits of an economic stimulus package."

The U.S. and global reinsurance industry does not have the capacity to provide protection against another attack, according to the Chamber. Many reinsurers have indicated that they plan to sharply reduce or eliminate coverage on potential terror targets, such as office towers, transportation hubs, sports arenas and critical infrastructure. Without reinsurance, primary insurers would be unable to shoulder the burden of full coverage.

The Chamber is urging Congress to pass a terrorism insurance bill – before the end of the session – with reasonable liability provisions that treat all businesses equally. "Acts of terrorism must not become a windfall for personal injury lawyers," said Josten. "Without congressional action, those trial lawyers who seek to exploit any future terrorist attacks will likely hamper our nation's economic recovery, enriching themselves at the public's expense."

U.S. Chamber of Commerce, Nov. 29, 2001

### **National Stockholder Wealth drops as a result of 9-11**

The New York Stock Exchange and the Nasdaq, which list the lion's share of large, publicly traded corporations, suffered double-digit drops in the days following 9-11. This translates into a total loss of stockholder wealth, as measured by the reduction in market capitalization, of a staggering \$1.7 trillion.

"The Milken Institute Review", Fourth Quarter 2001

Some of the losses have been recovered as of the writing of this report, but it should not be assumed that this tremendous loss would not affect Alaska small businesses. If some businesses were invested in stocks or funds that did not recover as well as others, there could be fallout at a later time. One thing is certain: many small businesses do not have the ability to withstand long-term instability in markets, consumer spending, regulatory issues, costs, etc. These market issues, when coupled with other destabilizing influences discussed here, could have extremely deleterious effects upon Alaska's small businesses.

## **Productivity Declines are a Cost**

Many businesses have identified numerous factors that will cause worker productivity to decline:

- Psychological factors (outlined below)
- Increased security precautions will slow employees making deliveries, accessing newly secure areas, and following new documentation requirements.
- New security regulations promulgated by governmental agencies will add administrative burdens and costs.
- Increased airport security, in fact most all travel will definitely affect productivity and ultimately costs.

The real worry is that the intangible costs associated with increased airport security will be ignored and, as a result, too little attention will be paid to passenger convenience, permanently burdening the airline industry with unnecessary delays. Assume that airline traffic falls by the 20 percent now projected by the airline industry. This would reduce the surveys, and behavioral-based studies suggest people place a value of about \$10 per hour on time spent in their cars, while studies of air travel put the cost at two to four times that much because air travelers have higher average incomes. Accordingly, we estimate the value of the 788 million hours lost to be somewhere between \$16 billion annually (valuing time at \$20 an hour) and \$32 billion annually (valuing time at \$40 an hour).

“The Milken Institute Review”, Fourth Quarter 2001

- Tasking employees with additional responsibilities related to emergency and contingency planning, security reviews, revision of emergency procedures to include terrorism attacks, and associated activities will reduce the amount of time those employees can be productively engaged in their primary missions.

## **Psychological Costs**

The worst terrorist attack in American history exacted a grave emotional cost to Americans who were not directly affected. This terror, and the attendant perceived loss of freedom to travel and work without terrorism’s risks, imposes a heavy psychological impact – precisely as it was intended.

The question, of course, is how we might put a value on these intangible costs. One way would be to apply what economists call “contingent valuation” (CV) analysis. CV analysis uses survey methods to assess the willingness of people to pay for goods not regularly traded in the marketplace. Such “non-market goods” include cleaner air and water, a reduction in nuclear power plant radiation risk, and broader public safety concerns. Thus, in the wake of the Exxon Valdez oil spill, the State of Alaska commissioned a survey in which Americans were asked how much money they would have been willing to pay collectively to undo the damage.

The (very controversial) answer: \$3 billion. In this particular case, the question is:

How much would we pay to be able to fly (or work in large office buildings, or drink the water from public reservoirs) without fear?

The emotional cost of the attack on the World Trade Center surely dwarfs that associated with thinking about all those dead birds and oil-drenched sea otters in Alaska. But by what order of magnitude? Hypothetically, if each of the 100 million American households not living in poverty would give up a mere \$1,000 to be able to forget that Osama Bin Laden and his ilk walk the earth, the emotional damage must be equivalent to at least \$100 billion.

“The Milken Institute Review”, Fourth Quarter 2001

How do these psychological costs affect the average business in Alaska? Probably most prominently in lost productivity. In addition to the Milken Institute’s comments, one must consider that workers in all businesses are now wondering when and where the terrorists will strike again. We all remember the emotional toll the 9-11 events took on us personally. The emotional response quite likely had attendant physiological effects. It’s human nature to bank energy to deal with a perceived future shock, which is probably occurring at this time. Workers could be deliberately conserving energies to have the requisite reserves whenever needed. This may manifest itself by reducing the pace at which one works; the diminished desire of a worker to deliberately cause or participate in an energy-intensive activity; a reluctance to crowd a somewhat already busy schedule; or putting off starting a new project.

### **The Effects May Not Yet Be Visible or Measurable; Or They May Not Be Happening** **- YET**

Alaska, and particularly small businesses in Alaska, may not have recognized the effects of terrorism. This may be because they cannot identify certain trends as terrorism-related; they may be in some sort of denial; or they just have not recognized any effects although they may be there.

The subcommittee feels that continued monitoring is warranted and further assessments of this same issue should be made quarterly for the next year.

The severity and length of the downturn depend on several key assumptions. Of paramount importance are whether there are any further terrorist attacks and the timing, nature, and success of the forthcoming U.S. military response. Clearly, another terrorist attack almost anywhere in the next few months would be debilitating and would result in a very severe recession. Moreover, the longer it takes for the U.S. military to respond and resolve events to the population’s general satisfaction, the more significant the economic disruption to travel and commerce.

“Attack On America: Fallout on the U.S. Economy”, Economy.com, Sept. 24, 2001

### **Increased Reliance On Technology Will Raise Costs**

Because of the effects of both the 9-11 attack and the anthrax mail assault, Americans and American businesses find themselves relying more and more on new technologies to do business and to communicate. Many businesses have not made sufficient investment in technology-related communications infrastructure to support this new reliance.

Technology providers are finding themselves behind the curve on developing their own infrastructure to support the expanded reliance on their products and services.

- As it relates to computers, computer networks, connectivity to the World Wide Web, the trend toward reliance on electronics to prepare, store, and transmit data, as well as provide speedy access to resources, information, vendors and customers, continues to expand.
- Email and email attachments are replacing reliance on surface mail and fax.
- Cellular phones are often considered preferable to traditional telephones if traditional infrastructure is considered at risk. (This may not be an altogether correct assumption.)
- FM radios and “walkie-talkies” don’t rely on wires. They are becoming more popular as a backup method for companies to communicate between buildings and work areas, and around industrial sites.

While current terrorism activities did not create this focus on technology-based communications and commerce, it certainly has increased the awareness of the need to “be connected.” More and more businesses will reprioritize as it relates to their entry into the electronic world or will upgrade their current technology based on the terrorist events.

Online retail sales dropped 35% throughout the week of the terrorist attacks according to iMarket News, as most Americans spent their time glued to radio and television news broadcasts. However, online sales were again on the rise in the weeks following September 11<sup>th</sup>. Whether it’s a way for the average American to feel that they are thumbing their noses at terrorism or a need for normalcy, retail sales are on the rebound.

According to Anick Jesdanun, AP Internet Writer, an announcement on ICANN’s (The Internet Corporation for Assigned Names and Numbers’) web site stressed the importance of e-mail, instant messaging, and the web “to support emergency response, personal and other communications, and information sharing.” E-mail has surfaced as the most reliable and efficient method of communication in an emergency situation. Not only is email being used as a preferred means of communication, but as a recent article in iMarketing News explained, it has also served as a major component in the b2b world’s efforts to drive charity relief and to express sympathy and outrage. Throughout the disaster, the Internet stayed operational with very few outages, thus becoming a national lifeline to many. Internet-based data back-up systems enabled many companies directly affected by the attacks to continue to operate.

### **Public Networks**

The morning of September 11<sup>th</sup>, as people scrambled to communicate with loved ones, public networks (landlines) were overloaded and cell phones failed. Many then turned to email, instant messaging, and PDAs, and the Internet held strong. Phone traffic exceeded the capacity of the majority of New York and Washington telecommunications infrastructures during the attacks.

“Terror In America: how have industries been affected?”, Mindbranch Marketing, Oct. 2001

### **Security Costs Will Rise**

Many businesses report their security costs will increase. Whether it's adding security personnel, fencing, employee identification systems, electronic surveillance, or other forms of security, businesses find themselves reevaluating their security needs. Additionally, new local, state or federal security laws or regulations will cause some businesses to have to add additional layers of security around their own practices or premises, or because of services they perform for others.

Some industries, particularly transportation and communications, have already been profoundly affected. Others are still analyzing their own needs, or have not yet been affected by the changing regulatory environment. The industries profoundly affected believe that they will be able to recoup some costs from their customers or the government, and say they will just have to absorb some of the costs through efficiencies elsewhere. Those not as heavily affected are not sure of the ultimate cost of their upgrades, and have not yet determined how they will deal with the one-time or continuing new costs of security.

Note: This subcommittee report does not necessarily address costs or issues encountered by the tourism, visitor, or transportation industries as these areas are within the scope of other subcommittees of this task force.

## **Report of the Subcommittee on Tourism & Visitor Industry**

Subcommittee Members: Dennis Brandon (Chair), Chris von Imhof, Judy Brady, Scott Goldsmith, Mike Burns, Dale Fox.

### **Summary**

Tourism plays a significant role in Alaska's economy, as it is the second largest private sector employer. Over 30,700 persons are employed in the visitor sector, which has the highest Alaska-resident percentage of any industry at 78%. Businesses in the State receive over \$1.3 billion per year, and State and local governments annually receive \$124 million in taxes, fees, and other assessments.

Tourism has been the hardest hit sector of the national economy due to the terrorist attack. Some airlines are in immediate danger of bankruptcy, losing \$500 million a week. Thirty-seven percent of consumers say that they have become less likely to take an airline trip in the next year, up from 27% just two weeks ago, according to Newsweek. A December 1 poll of 40% of ATIA members indicates a decline of 23% in visitor inquiries and bookings from the same time last year.

Projected decline in visitor bookings translates into an estimated \$223.8 million shortfall during the 2002 summer season. Estimated job loss under the current scenario would be 3,596. Tax and fee revenues to state and local agencies would be less by \$28 million. The current recession and economic uncertainty, coupled with the prospects of a long war, add considerably to the reluctance of consumers to travel.

Competitive destinations are responding with increased tourism promotion budgets, each in the tens of millions of dollars. Some of these destinations are accessible by car and train. Cruise ship itineraries will remain in place and operate near capacity because of very low pricing. These visitors are much less likely to spend money on land-based travel or goods.

The long-term situation is unpredictable. Recovery will depend upon the public's willingness to travel, the return of consumer spending, and Alaska's ability to compete successfully in the market place. We can affect only the last of these factors. Success will be determined by our deployment of money, media, message and measurement.

Money will be needed to buy consumer communications. Media selections will have to be targeted to Alaska's most productive market segments. The message presented will have to be creative and compelling. Timing is an important factor. This consumer campaign must begin prior to the beginning of the 2002 visitor season.

Tourism is the one Alaska industry most immediately impacted by the events of September 11. Additionally, it is the industry where a one-time infusion of capital can result in an economic return for the state, as it relates to job retention.

Attachment 2 to this report is the Alaska Tourism Industry Crisis Recovery Plan, dated December 6 and developed by the Alaska Travel Industry Association.

*Recommendations:*

- Minimize the impact on travel to Alaska and the devastating effect it will have on the state's economy. Preserve small businesses that make up the backbone of Alaska's tourism industry.
  - Encourage previous inquirers to proceed with their travel plans
  - Increase efforts to convince those "willing to travel" to come to Alaska
  - Target various sectors of trade that are in key positions to affect destination choices
  - Remind consumers that Alaska is part of the United States
- Acknowledge the severity of the problem the Alaska economy faces from a dramatic falloff in visitor arrivals. The facts support it. The U.S. was in recession prior to 9/11. Inquiries and Bookings are down 23%. The shortfall in Visitor expenditures is currently at \$233.8 million in direct and indirect expenditure and job loss would be 3,596 under the current scenario. Tax and fee revenues to state and local agencies would be less by \$28 million.
- Select the deployment of marketing in Alaska's highest productive markets as our best solution for addressing the measured shortfall in jobs and revenue. Of all the factors that could turn around our situation, we have the power to affect only one – to speak to the vacationing public and convince them to come to Alaska.
- Recommend that \$12.5 million dollars be allocated to the marketing of Alaska. This will reduce projected decline of visitors, expenditures and job loss by 57%. Recommend that the funding be made available as soon as possible in recognition of the bookings and planning for summer visits to Alaska. Each day of delay translates into lost bookings, as consumers choose other destinations. Half of Alaska visitors decide to visit within six months of arriving. Half of Alaska's visitors book their trip within 3-6 months prior to travel. This makes the January – May period a critical one for communicating with the consumer.
- Validate the effectiveness of the destination marketing. Many destinations have measured and verified the link between marketing campaigns and their direct benefit in incremental visitor arrival. Alaska should measure its campaign as well.
- Focus Alaska's communications on its high potential markets where we will get the biggest bang for our buck. This means focusing efforts on the U.S. market and particularly the West Coast region. Use targeted media such as cable TV, Direct Mail, and the Internet.
- Speak to the Travel Trade. Many consumers will look to their travel agents for advice on which destinations offer the best choices during these unsettled times.



- Use the campaign to encourage Alaska residents and visiting friends and relatives to travel within the state. These resident expenditures are every bit as effective as visitor dollars in supporting small businesses and circulating dollars within Alaska.

## **Report of the Subcommittee on Government Spending & Income**

Subcommittee Members: Jeff Bush (Chair), Brian Rogers, Terry Hoefflerle

### **Summary**

The goal of this committee was to identify the impact of possible reduced or modified federal and state spending on businesses, and to further identify alternative employment opportunities for those impacted, including the opportunity to match new federal needs with Alaska based companies to keep dollars instate. While many impacts of business will impact government in a similar manner, e.g., cost of increased security, the subcommittee focused on issues generally unique to government.

The following topics were identified by the subcommittee for further research and analysis:

#### Reduction in discretionary federal funding

For many years Alaska has benefited from federal discretionary funding. This trend is not likely to continue due to shifts in the federal budget to non-discretionary projects and programs. Alaska has already felt the effects of the shifts in federal priorities. For example, funding for the construction of a USFS/APLIC tourism visitors center in Tok was moved from FFY05 to FFY07 due to a necessary shift in federal spending. The National Transportation Bill that recently passed redirected discretionary funds for aviation projects only, which may delay Alaska's estimated \$100 million in capital projects for such items as runways, paving, and environmental cleanup.

Questions were asked of the Department of Transportation and Public Facilities (DOTPF) and the Department of Health and Social Services (DHSS) that receive large amounts of federal funding. According to Deputy Commissioner Kurt Parkan, DOTPF does not anticipate any substantial direct impact to normal programs as a result of the September 11 events, and very little impact as a result of decreased discretionary funding. However, DOTPF expects less earmarking by state congressional delegations, which may affect Alaska. At the same time, this may allow Alaska more flexibility to compete for federal funds, which Alaska has done successfully in the past.

#### Reduction in State Revenues

The state has a very limited number of revenue sources with revenue from oil playing the most significant part. Already slipping due to the recession, the events of September 11 resulted in a rapid and severe reduction in interest rates and a noticeable drop in oil prices. The combination of lower interest rates and lower oil prices will sizably reduce state revenues. The Alaska Department of Revenue projected on December 7, 2001, that the price of North Slope oil will hit a downward plateau at approximately \$18 a barrel in FY02 and FY03, after two years of higher-than-average prices, thus widening the state's

fiscal gap. Based on the department's oil price and production forecasts, and assuming a spending level needed to maintain existing services, the Constitutional Budget Reserve Fund will be depleted by July 2004 – almost a full year sooner than forecast by the department last spring. Without a fiscal plan that includes new revenue, the Budget Reserve will continue to be drained

A second impact to state revenues will be the permanent increase in the oil companies' cost of doing business, with a resulting reduction in wellhead value. Increased security at Alyeska Pipeline is anticipated to cost as much as \$8 million annually. While this represents less than one percent of Alyeska's net revenue, this will be a permanent annual cost and revenue reduction for the company, with a consequent loss of \$2 million to the state.

The impact of lower interest rates combined with lower fuel costs will be felt by the state. The impact to the Alaska Marine Highway System will be mixed: while lower fuel costs will decrease operational costs, the possibility of fewer passengers may decrease revenues.

All of these impacts and potential impacts, most of which are long term, point to the continuing need for the state to develop a long-range financial plan.

*Recommendation:*

- Continue efforts for the adoption of a long-range financial plan.

Providing Employment for Displaced Workers

The Department of Labor and Workforce Development (DOLWD) recently released its unemployment figures for October, the first report of data obtained after the Sept. 11 events. This report contained some surprising, but generally positive, news:

- (a) When seasonally adjusted, Alaska's unemployment rate actually dropped from September to October, when the national rate went up.
- (b) Although Southeast Alaska shows noticeably higher unemployment rates due to drops in seasonal tourism and fishing jobs, Anchorage's rate held steady with no change from September.
- (c) While Alaska's seasonal employment has caused the usual increase in unemployment, it is, comparatively, no greater than in previous years.

In comparison, the State of Virginia reports that more than 35,000 people have filed for unemployment, more than double the number during the same time period last year.

Despite this encouraging news, the need for workforce training and retraining for jobs in emerging and stable industries increases with the downturn in travel, tourism and hospitality. In addition, Alaska should attempt to capitalize on the increased demand in defense, security, high tech, and government contracting industries.

*Recommendation:*

- Extend unemployment benefits when the federal criteria is met to stimulate the economy through funding available in the unemployment trust fund.

#### Increased Costs of Doing Business

The state will experience many of the same increased costs of doing business as the private sector, such as increased insurance and security costs and replacing employees who are called to active military duty in an already tight labor market. While the “Business Impacts” subcommittee is addressing these topics, the subcommittee wanted to know whether there are any costs particularly unique to state government. For instance, concern was expressed about retaining troopers at the Department of Public Safety (DPS), since there were indications even prior to September 11 that law enforcement agencies had a difficult time filling positions.

According to Gretchen Pense, special assistant at DPS, state government has been fortunate that, to date, no employees have been called up for National Guard duty, even though many DPS employees belong to the National Guard. Also, no employees have been lost to new security jobs. However, DPS remains concerned about potential changes to the workforce and competing security and sky marshal jobs, but says it is too soon to tell to what degree the impacts will be felt.

The Division of Risk Management reports that the state should expect significant insurance premium rate hikes beginning in July 2002. The market for insurance coverage was hardening even before September 11; insurance customers would have faced higher premiums in any event. Due to September 11, cost of coverage will increase significantly and, in some cases, coverage may no longer be available for certain risks. Willis Coroon projects increases of 30 percent for marine, 35 percent for casualty, 100 percent for aviation, and 50 percent for property. This does not include increased premiums for “war risk” or terrorism, which will cost the state \$811,000 additional for the state’s marine and aviation programs for FY 03 alone. DOTPF will have to pay for these premium increases and intends to request a supplemental budget increase. A projected premium increase of \$2.4 million is projected for the state to cover risk management costs. This number is inclusive only of the State and does not include projected figures for the University, municipalities, or school districts that will also feel the financial impact of increased premiums. The state operates a sizeable self-insurance policy of \$1 million on property; increased premiums that provide additional protection as a result of the September events are over and above this primary self-insurance coverage.

While airports were affected by increased security and parking requirements, significant reductions in landings were not reported. Juneau Airport traffic was down only one percent in October in comparison to the same time the previous year.

There was some discussion regarding the possibility of decreasing landing fees at airports to encourage more flights. Landing fees have not been reduced or eliminated at the Ted Stevens Anchorage International Airport in Anchorage, Fairbanks International Airport, or the Juneau Airport, and none are anticipated. Should this option be considered, lost

revenue resulting from non-collection of landing fees from Anchorage alone could be over \$24 million.

As a result of the economic downturn exacerbated by the September 11 events, the state expects to experience some additional deficiencies concerning its loan portfolios. However, the cause of payment difficulties will be hard to specifically identify, and the amount of these deficiencies, if any, cannot be predicted.

*Recommendations:*

- The state must stay competitive with the private sector and federal government in the job market, especially as it relates to positions in public safety and security.
- Adequate funding for insurance is critical for the state, municipalities, and school districts. At the same time, state and local agencies must look for ways to defer other costs/projects so these increases in operational costs can be achieved.
- Continue to monitor the changing requirements and costs of insurance on a state and national level. Alert state legislators that their assistance may be necessary between sessions and work with the Governor's Office in DC on national issues.

## **Report of the Subcommittee on Transportation and Air Cargo Subcommittee**

Subcommittee Members: Cliff Argue (Chair), Terry Hoefflerle, Jim Jansen, Joe Sprague.

### **Summary**

Transportation for both passengers and cargo, including mail, is critical to the State of Alaska. Aviation is not only a major element of the economy, but provides essential mobility to the entire population, many of whom live and work in remote rural areas and all of whom have limited or no access by other modes. Transportation must be reliable and affordable. Alaska's rail is equally important to the movement of Alaska's commodities and fuel used for transportation along the railbelt.

### **Impacts to Alaska's Air Transportation**

A complimentary mix of large international and domestic airlines along with many regional and air taxi operators provides air service in the state. In addition, the contribution to the economy by the airports in Anchorage and Fairbanks is enhanced by flights between Asia and Europe and development of a strong and growing cargo transfer point for both U.S. and foreign carriers.

The events of September 11 have had a devastating impact on air transportation. The initial shutdown of U.S. airspace and resultant grounding of aircraft cost the airlines hundreds of millions of dollars. Once flights began operating again, many airlines reduced schedules in response to lesser demand, especially in the area of discretionary travel and shipping. Business travel has been reduced everywhere and all indicators are that it will be slow to return. In addition, airfreight volumes are down as well. The downturn, which began with the slowing Asian economy in recent years and continued with the U.S. recession earlier this year, has been made all that much worse after September 11. Airports, concessionaires, rental car companies, and others supporting air transportation have also seen decreases in revenue.

Funds from the Federal government to the domestic carriers from the Airline Stabilization Act will provide only limited relief. These payments are unlikely to cover the full extent of losses for the airlines and in any case only apply to costs incurred from September 11 through December 31, 2001. Many of the smaller carriers will receive little if any of this funding, while everyone is seeing increased costs.

Alaska is not immune to these impacts. While the essential nature of much airline service throughout the state and the role as transit fueling locations have perhaps mitigated the decline in aviation activity to some extent, there are still definite signs of just how fragile air transportation can be. New requirements for full inspections by U.S. Customs and Immigrations officers of passenger flights transiting Alaska have caused two carriers to

suspend operations at Anchorage. This situation cost Alaska jobs, landing fees, and other benefits. A similar ruling by Customs and INS is threatening to curtail or add major costs to the small but growing number of flights and visitors to Nome from the Russian Far East. An inadvertent, though seemingly innocent, interpretation or other ruling by Federal officials in Washington, D.C. could be financially devastating to the current international cargo activity or even the refueling flights.

Increased security regulations are and will continue to be a significant cost as well as causing operational and passenger inconvenience for airlines, airports, and communities. The “vehicle-free zones” mandated even at the smallest rural airports are posing hardships for passengers and shippers everywhere. As the various provisions of the recently passed Aviation Transportation and Security Act are enacted, such as the bag screening/matching requirements, Federalization of security checkpoints, and increased oversight and inspections, costs of operation will continue to rise. These expenses will in turn be passed on to the traveling and shipping public. “Known shipper” requirements and the size of individual mail pieces that can be carried on passenger aircraft are further impediments to the free flow of air commerce in the state.

Clearly security in the air and at our airports is critical. The most effective method to get people to feel comfortable flying again is to insure and to be able to communicate that their flights will be safe, secure, and a pleasant experience. Everyone understands the need for increased security procedures and will accept longer check-in times, more screening and ID verification, and increased law enforcement/military presence in the airports. However, even the Aviation and Transportation Security Act recognizes the unique nature of air service in Alaska and allows for application of exemptions to some requirements where justified.

In addition, given the increased costs that result from whatever security measures are utilized at airports, measures must be taken an undue burden is not placed on air carriers or their customers. To this end, the airport operators, including DOTFP, along with local governments in locations such as Juneau, Sitka, Ketchikan, and Kenai, need to be aggressive in applying for any and all Federal grants available under the Security Act or other sources. Also, wherever possible, reducing non-essential spending, both operating and capital, will be critical during the next year. While Alaska has not experienced as great a downturn in activity due to the essential nature of transportation in the state, impacts such as increased cost of insurance, restrictions of combining mail and passengers, and 300 ft. parking limitations will have a significant impact on Alaska’s more than 400 airports, the majority of which are rural.

Air transportation is facing a number of uncertainties. As covered in other reports, there are many factors that will lead to a full recovery. A coordinated and cooperative effort by airlines, airports, and other government and private entities will help insure the continued viability of air transportation as a major driver of Alaska’s economy and essential transportation for people throughout the state.

### **Actions Underway**

- Active negotiations to obtain relief from customs and immigration procedures on transit passenger flights such as Cathay Pacific and China Airlines at Anchorage, and relief from enhanced requirements affecting arrivals at Nome from the Russian Far East (Chukotka), consistent with maintaining adequate border security.
- Negotiations between the state and air carriers regarding the possible reduction or deferral of capital and operating expenses at Anchorage and Fairbanks Airports not required for safety, security, and essential capacity. DOT is working with airlines and other airport users to determine which projects and other costs can be reduced without affecting operation. An initial stakeholder meeting was held December 12th. The initial goal of these negotiations is to keep airport rates and charges at or below existing levels for at least calendar year 2002 as an incentive to airlines to maintain air traffic activity in the face of growing costs and reduced revenues.

### ***Recommendation:***

Encourage DOTPF to pursue on an expedited basis all benefits to which Alaska is entitled under the Aviation and Transportation Security Act in grants, reimbursements, and funding flexibility for security costs and enhancements (Sections 119, 121, 143) as well as exemptions for special circumstances (Section 118) such as the parking area restrictions at rural airports. Additionally, the vehicle-free zones should be rescinded as a general requirement across the United States and exceptions allowed where no terrorist threat is identified.

### **Impact to Alaska's Rail Transportation**

Decreased passenger bookings, reduced need for transportation of fuel for air cargo, and security upgrades are viewed as the greatest impact of the events on September 11 on the Alaska Railroad (ARR). Reduced passenger bookings is speculative at this time, but there is concern that economic conditions in the United States and Asia may keep potential visitors from traveling. In addition, the cruise ship industry is taking capacity that would have been in Southcentral Alaska and repositioning to Southeastern Alaska in case people choose not to fly.

Depending on whether the economy continues to decline, air cargo volumes may be down next year. That would mean fuel to the airport – the Railroad's number one commodity - will be affected. Declining fuel usage in the rest of the country is driving lower oil prices, which will in turn impact the State of Alaska's capital construction budget, either in 2002 or in later years. Those projects drive gravel requirements as well as fuel, steel and heavy equipment, all large parts of the ARR revenue portfolio. Federal project funds may also be redirected to take care of the war effort and other priorities.

The more direct impacts to the Railroad involve spending money for security upgrades and for changes to the physical plant. ARR will have to X-ray customers' bags in Seward next season, and X-ray machines are a long lead-time item. ARR anticipates delays in loading and unloading passengers and operational expenses related to those delays. Other



impacts include increased monitoring of buildings, yards and track, the barge service, and changed paperwork and inspection procedures for freight railcars, particularly those coming from or going outside Alaska. There will be fencing and guard shack requirements as well for both passengers and freight.

The ARR is in the midst of a large capital program to add capacity to the system and expects to need that infrastructure in the near to mid-term. Unfortunately, if short-term revenue is down, the Railroad's internal capital funding may be affected.

### **Impact to Alaska's Marine and Highway Transportation Systems**

Impacts of September 11 on the marine and highway industries include expanded security requirements, new regulations, and increased insurance premiums. To a lesser extent, these industries have been affected by impacts to the general economy, within and outside Alaska. It is important that the state carefully consider economic impacts of any potential additional regulations or security requirements under consideration.

**University of Alaska Anchorage  
Small Business Development Center  
Small Business Disaster Impact Assessment Survey**

UAA's Small Business Development Center developed and promulgated a survey to help assess the impact of terrorism on Alaska's small businesses prior to the convening of this Task Force. They have worked closely with the Business Costs of Terrorism subcommittee, and offered their survey as part of the subcommittee report. They were also able to obtain the assistance of the Anchorage Chamber of Commerce, who distributed the survey link to their membership. The survey results were tabulated separately for the SBDC group and the Anchorage Chamber responses, and provide some excellent insights.

Question	SBDC Respondents	Anchorage Chamber
Years in business	56% under 5 years 80% under 10 years	54% more than 20 years
No. of employees	78% under 5	24 % under 5 37% over 26
Do you expect an impact as a result of 9-11?	51% negative impact 37% no impact	56% negative impact 26% no impact
What would the negative impact be?	77% said decrease in revenues 37% said increased costs 23% said decreased profitability	69% said decrease in revenues 33% said increased costs 44% said decreased profitability
Quantify expected decrease in revenues	27% said less than 5% 54% said under 20% 6% said 71 – 80%	22% said less than 5% 80% said under 20% 100% said under 40%
Reduction in workforce?	80% said less than 5% of employees	59% said less than 5% of employees 36% said 5-20% of employees
Increased cost of doing business?	41% said 5% or less 21% said 6-10% 17% said 11-20%	32% said 5% or less 52% said 6-10% 13% said 11-20%
What support do you need to stabilize your business?	63% said I.D. of new market opportunities 40% said access to Gov't contracts 35% said learning how to trim costs 40% said cooperative marketing efforts 40% said marketing plan development	55% said I.D. of new market opportunities 35% said learning how to trim costs 39% said cooperative marketing efforts 35% said marketing plan development
UAA Small Business Development Center, 2001 Small Business Disaster Impact Survey		